

Solved MCQs of Accounting & Auditing

Courtesy Xarra Hussain cssforum

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۱. نامو
۲. نتیجہ جو نالو
۳. تعلیمی قابلیت
۴. مصروفیت
۵. تصویب

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(10) In straight line method of depreciation, the written down value of a fixed asset will be at the end of the life of the asset as under:

- (a) Rupee one
- (b) Rupee zero** (c) None of these.

(11) Sales budget must be prepared:

- (a) Independently
- (b) Depending on production capacity
- (c) Based on Sales forecasts of market.**

(12) Consolidation of subsidiary accounts in the balance sheet of a unlisted Holding company is at present in Pakistan:

- (a) Compulsory
- (b) Voluntary
- (c) Required.**

(13) Retained earning is synonymous to:

- (a) Accumulated profit and loss account**
- (b) Profit for the year
- (c) None of these.

(14) The requirements of an audit report for a Banking Company in Pakistan is under:

- (a) Under the Banking Companies Ordinance, 1962.
- (b) Under the Companies Ordinance, 1984.
- (c) Under (a) and (b) above.**

(15) Deferred Taxation is:

- (a) Fixed asset
- (b) Fixed liabilities
- (c) Part of Owners Equity.**

(16) Investment Corporation of Pakistan follows:

- (a) Open-end mutual funds
- (b) Closed-end mutual funds
- (c) None of these.**

(17) Directors Report is ---- in respect of financial report constituent.

- (a) Mandatory for a limited Company**
- (b) Voluntary for a limited Company
- (c) None of these.

(18) Every limited Company in Pakistan is required by law to include the following along with financial reports:

- (a) Ratio Analysis
- (b) Chairman's Review**
- (c) None of these.



(19) Cash budget excludes the following:

- (a) **Non-Cash items**
- (b) Cash items
- (c) Purchase on Credit items.

(20) NGOs are legally required to:

- (a) **Prepare accounts in a prescribed manner under the law.**
- (b) Prepare accounts as desired by donors.
- (c) None of these.

Accounting & Auditing Paper –II (2000)

1. Fixed Cost:

- a. Changes with production
- b. Never changes even if production capacity is doubled**
- c. None of the above

2. Conversion cost is:

- a. Material Cost + Overhead Cost
- b. Direct Labour + Material Cost
- c. Labour Cost + Overhead Cost**

3. Process Costing is relevant to:

- a. Cement industry**
- b. Job Order cost oriented Projects
- c. None of the above

4. Operating Profit is:

- a. Profit after deducting financial costs
- b. Profit after deducting taxes
- c. Profit after deducting normal operating expenses including depreciation**

5. A good Cost Accounting System is:

- a. If it computes estimated cost only
- b. If it cannot be reconciled with financial accounts
- c. If it enables management to increase productivity and rationalize cost structure**

6. Verification includes:

- a. Checking Vouchers
- b. Examining audit report
- c. None of the above**

7. Stratified audit sample means:

- a. Randomly selected items for audit**
- b. Purposively selected items for audit
- c. Items carefully selected from each group

8. Internal Control is totally synonymous with:



- b. If the period is less than one year
- c. If the period is over one year

18. A partnership, in today's Pakistan, under the current law can have the following number of partners:

- a. 50
- b. **20**
- c. 100

19. Combination can be best described as:

- a. Restructuring of Capital of a Company
- b. Reduction of Capital of a Company
- c. **Amalgamation of two different types of businesses**

20. Sources of funds can be increased by:

- a. Describing selling prices
- b. Increasing expenditure
- c. **None of above**

Accounting & Auditing paper-I (2001)

Write only the correct answer in the Answer Book. Do not reproduce the questions.

(1) Books of original entry are called:

- (a) Ledger
- (b) Work sheets
- (c) **Journal**
- (d) None of these

(2) For preparing balance sheets prepaid expenses are shown as part of:

- (a) Liability
- (b) Equities
- (c) **Assets**
- (d) None of these

(3) Unpaid and unrecorded expenses are called:

- (a) Prepaid expenses
- (b) **Accrued expenses**
- (c) Additional expenses
- (d) None of these

(4) Amount, cash, or other assets removed from business by owner is:

- (a) Capital
- (b) **Drawings**
- (c) Assets
- (d) None of these



- (5) Under the diminishing balance method, depreciation amount is:
- (a) Payment
 - (b) Receipt
 - (c) Expenditure**
 - (d) None of these
- (6) Users of accounting information include:
- (a) The tax authorities
 - (b) Investors
 - (c) Creditors
 - (d) All of these**
- (7) The business form(s) in which the owner(s) is (are) personally liable is (are) the:
- (a) Partnership only
 - (b) Proprietorship
 - (c) Corporation only
 - (d) Partnership and proprietorship**
 - (e) None of these
- (8) The investment of personal assets by the owner:
- (a) Increases total assets and increases owner's equity**
 - (b) Increases total assets only
 - (c) Has no effect on assets but increases owner's equity
 - (d) Increase assets and liabilities
 - (e) None of these
- (9) All of the following are forms of organizations except:
- (a) Proprietorship
 - (b) Corporation
 - (c) Retailer**
 - (d) Partnership
 - (e) None of these
- (10) Economic resources of a business that are expected to be of benefit in the future are referred to as:
- (a) Liabilities
 - (b) Owner's equity
 - (c) Withdrawals
 - (d) Assets**
 - (e) None of these
- (11) An owner investment of land into the business would:
- (a) Decrease withdrawals
 - (b) Increase liabilities
 - (c) Increase owner's equity**
 - (d) Decrease assets
 - (e) None of these
- (12) A cash purchase of supplies would:

(d) None of these

(20) Balance sheet is always prepared:

- (a) For the year ended
- (b) As on a specific date**
- (c) None of these

Accounting & Auditing Paper-II (2001)

Write only the correct answer in the Answer Book. Do not reproduce the questions.

(1) The measurable value of an alternative use of resources is referred to as:

- (a) An opportunity cost**
- (b) An imputed cost
- (c) A different cost
- (d) A sunk cost
- (e) None of these

(2) A quantitative expression of management objectives is an:

- (a) Organizational chart
- (b) Management chart
- (c) Budget**
- (d) Procedural chart
- (e) None of these

(3) A cost center is:

- (a) A unit of production in relation to which costs are ascertained
- (b) A location which is responsible for controlling direct costs
- (c) Part of the factory overhead system by which costs are gathered
- (d) Any location or department which incurs cost**
- (e) None of these

(4) At break-even point of 400 units sold the variable costs were Rs. 400 and the fixed costs were Rs.200. What will be the 401 units sold contributing to profit before income tax?

- (a) Rs. 0.00
- (b) Rs. 0.50**
- (c) Rs. 1.00
- (d) Rs. 1.50
- (e) None of these

(5) In considering a special order situation that will enable a company to make use of currently idle capacity, which of the following cost will be irrelevant:

- (a) Materials
- (b) Depreciation**
- (c) Direct labour
- (d) Variable factory overhead
- (e) None of these

- (6) A fixed cost:
- (a) May change in total when such change is not related to changes in production
 - (b) Will not change in total because it is not related to changes in production**
 - (c) Is constant per unit for each unit of change in production
 - (d) May change in total, depending on production with the relevant range
 - (e) None of these
- (7) Completion of a job is result in:
- (a) DR finished goods CR WIP**
 - (b) DR Cost of goods CR finished goods
 - (c) DR WIP CR FOH control
 - (d) DR FOH control CR FOH applied
 - (e) None of these
- (8) Operating cost is often named as:
- (a) Manufacturing cost plus commercial expenses
 - (b) Prime cost plus factory overheads
 - (c) Direct material plus direct labour
 - (d) Selling plus administrative expenses**
 - (e) None of these
- (9) Expenses such as rent and depreciation of a building are shared by several departments these are:
- (a) Indirect expenses**
 - (b) Direct expenses
 - (c) Joint expenses
 - (d) All of the above
 - (e) None of these
- (10) If under applied FOH is closed to cost of goods sold, the journal entry is:
- (a) DR Cost of goods sold CR FOH control**
 - (b) DR FOH control CR Cost of goods sold
 - (c) DR FOH control CR Profit % loss account
 - (d) None of these
- (11) Re-order quantity 3600 units
Maximum consumption 900 units per week
Minimum consumption 300 units per week
Re-order period 5 weeks
Based on this data Re-order level is:
- (a) 4500 units**
 - (b) 3900 units
 - (c) 1200 units
 - (d) 400 units
 - (e) None of these

- (c) At the time of sale of business
(d) None of these
- (3) The preparation of work sheet:
(a) Constitutes creation of a formal financial statement
(b) Eliminates the need for entering adjusting entries in the journal
(c) Provides the information needed for journalizing adjusting and closing entries
(d) None of these
- (4) Assets would be overstated if necessary adjusting entry was omitted for:
(a) Expired Insurance
(b) Accrued Salaries
(c) Accrued Interest Earned
(d) None of these
- (5) The book value of the depreciable asset is best defined as:
(a) The un-depreciated cost of the asset
(b) The price that the asset would fetch if offered for sale
(c) Accumulated depreciation of the asset since acquisition
(d) None of these
- (6) Which of the following is not an intangible asset?
(a) A patent
(b) A trademark
(c) An investment in marketable securities
(d) None of these
- (7) A company has current ratio of 2 to 1 at the end of year 1. Which one of the following transactions will increase this ratio?
(a) Sales of bonds payable at a discount
(b) Declaration of a 20% cash dividend
(c) Collection of a large account receivable
(d) None of these
- (8) If sales increase by 10% from year 1 to 2 and cost of goods sold increases only 6%, the gross profit on sales will increase by:
(a) 4%
(b) 10%
(c) 6%
(d) None of these
- (9) Which of the following is not an acceptable inventory method?
(a) Lower of cost or market
(b) Sales value
(c) Specific identification
(d) None of these
- (10) which of the following amounts appears in both the income statement and balance sheet?

expenses incurred in that month. Hassan & Company paid Rs.3,600 as salary to employees for work done in April. Based on these facts, total expenses for the month of April were:

- (a) Rs.6,100
- (b) Rs.6,800
- (c) Rs.10,700

(d) None of these

(Bill of march Rs 6100 + Salary exp Rs 3600= Rs 9700)

(18) Which of the following categories of accounts are closed at the end of an accounting period?

- (a) Temporary accounts**
- (b) Permanent accounts
- (c) Personal accounts
- (d) None of these

(19) A retail store had current assets of Rs.72,000 and a current ratio of 2 to 1. The amount of working capital must have been:

- (a) Rs.144,000
- (b) Rs.108,000**
- (c) Rs.72,000
- (d) None of these

(20) Bond holders would be most interested in which of the following?

- (a) Quick ratio
- (b) Inventory turnover
- (c) Times interest earned**
- (d) None of these

Accounting & Auditing (2008)

1. Identify the item that is likely to serve as source document:

- a. Trial balance
- b. Income statement
- c. Balance sheet
- d. Invoice from supplier**

2. Identify which of the normal balances (in parentheses) assigned to the following accounts is incorrect:

- a. Office supplies (Debit)
- b. Cash (Debit)
- c. Wages payable (Credit)
- d. Fee earned (Debit)**

3. The formula $(\text{Cost less salvage value} / \text{Total capacity in units} \times \text{units extracted})$ refers to which depreciation method:

- a. Straight line
- b. Units of production**
- c. Declining balance

d. Depletion

4. While passing adjusting entries for what type of transactions expenses are debited and assets are credited:

- a. Accrued revenue
- b. Accrued expenses
- c. Unearned Revenue
- d. Prepaid Revenue**

5. Of the following statements, which one is untrue for the corporate form of organization:

- a. It is a separate legal entity
- b. It has a limited life**
- c. Income that is distributed to owners is usually taxed twice
- d. Ownership rights can be easily transferred

6. For each transaction, double-entry accounting requires which of the following:

- a. Debits to asset accounts must create credits to liability or equity accounts**
- b. A debit to a liability account must create a credit to an asset accounts
- c. Total debits must equal total credits
- d. None of these

7. When costs are rising, which method reports higher net income:

- a. LIFO
- b. FIFO**
- c. Average
- d. The most recent purchase price

8. A transaction caused Rs. 20,000 decrease in both total assets and total liabilities. This transaction could have been:

- a. Purchase of an asset for Rs. 20,000 cash
- b. Asset costing Rs. 20,000 destroyed by fire
- c. Repayment of Rs. 20,000 bank loan**
- d. Collection of Rs. 20,000 account receivable

9. What percentage of profit a bank has to transfer to statutory reserve until it inflates to paid-up capital of the bank:

- a. 5%**
- b. 10%
- c. 20%
- d. 25%

10. Identify the correct answer with regards to depreciation expense:

- a. Is an application of the matching principle?**
- b. Is a closing entry?
- c. Usually includes an offsetting credit either to cash or accounts payable.
- d. Is not an adjusting entry?

11. Comparison of a company's financial condition and performance across time is a:

18. Identify which items are subtracted from the list amount and not recorded when computing purchase price:

- a. Freight in
- b. Trade discount**
- c. Purchase discount
- d. Purchase return

19. Bonus payable only on the maturity of the policy is termed as:

- a. Cash bonus
- b. Reversionary bonus
- c. Interim bonus
- d. Bonus is reduction of premium**

20. Rebate on bill discounted (unearned discount) is:

- a. An expense
- b. An income
- c. A liability**
- d. An asset

Accounting & Auditing (2009)

(i) Which of the following transactions represent an expense?

- (a) The owner withdrew Rs. 1,600 from the business for personal use
- (b) Purchased a photocopying machine for Rs. 2,750 cash
- (c) Purchased medical supplies for cash from Healthcare Labs. Rs. 1,630
- (d) Received a telephone bill amounting to Rs. 550 to be paid within ten days.***

(ii) Which of the following statements about accounting procedures is not correct?

- (a) The journal shows in one place all the information about specific transactions arranged in chronological order.
- (b) A ledger account shows in one place all the information about changes in a specific asset or liability or owner's equity.
- (c) Posting is the process of transferring information from ledger accounts to the journal.***
- (d) The product of the accounting cycle is the formal financial statements such as balance sheet and income statement.

(iii) Which of the following financial statements reflects the overall financial position of the business?

- (a) Statement of cash flows (b) Income Statement
- (c) Balance Sheet*** (d) Statement of owner's equity

(iv) Trial Balance is prepared:

- (a) To ensure arithmetical accuracy of accounting records.***
- (b) To establish complete accuracy of accounting records.
- (c) To determine the amounts payable to suppliers for purchase of goods on credit.
- (d) To ensure efficient use of resources of the business.



(v) The net sales of Fresh Foods were Rs. 200,000 for the current month. If the cost of goods available for sale was Rs. 180,000 and the gross profit rate was 35%, the ending inventory must have been:

- (a) Rs. 70,000 (b) Rs. 1,30,000 **(c) Rs. 50,000** (d) Rs. 63,000
 $(200,000 - 180,000 - X = 70,000(0.35 * 200,000 = 70,000)) = X = 50,000$

(vi) In the accounting cycle:

- (a) Closing entries are made before adjusting entries.
(b) Closing entries are made after the adjusting entries.
(c) Adjusting entries are made after financial statements are prepared.
(d) Financial statements are prepared after closing trial balance.

(vii) Which of the following is an intangible asset?

- (a) An investment in marketable securities.** (b) Leasehold land.
(c) Loose tools. (d) Copy rights.

(viii) Expense is recorded in the accounting records when:

- (a) Cash is paid (b) The purchase order is placed with the supplier
(c) Purchases are made (d) None of these

(ix) The cash basis of accounting:

- (a) Is widely used by manufacturing firms.
(b) Is often used by merchandising firms.
(c) Usually results in a larger amount of tax than under accrual basis accounting.
(d) Can not be used in filing income tax returns.

(x) The straight-line method of depreciation:

- (a) Generally gives best results because it is easy to apply
(b) Should be use din a period of inflation, because it accumulates the fund for the replacement of asset at a uniform rate.
(c) Is the best method used for wasting assets.
(d) Ignores fluctuations in the rate of asset usage.

(xi) Which of the following accounts are not closed at the end of an accounting period?

- (a) Revenue accounts (b) Expense accounts (c) Drawing accounts **(d) Asset accounts**

(xii) Under periodic inventory system cost of good sold is determined and recognized in the books of accounts:

- (a) At the time of purchase of goods (b) At the time of sale of goods
(c) At the end of the year (d) None of these

(xiii) Which of the following is not a use of working capital?

- (a) Repayment of long term debt **(b) Cash dividend declared but not paid**
(c) Payment of an account payable (d) Acquisition of treasury stock.



(xiv) A transaction caused a Rs. 10,000 decrease in both assets and total liabilities.

This transaction could have been:

- (a) Purchase of furniture for Rs. 10,000
- (b) An asset costing Rs.10,000 was destroyed by fire
- (c) Repayment of bank loan Rs. 10,000**
- (d) Collection of a Rs.10,000 account receivable

(xv) Which ratio indicates a firm's ability to pay current liabilities in the shortest possible time?

- (a) Current Ratio** (b) Equity Ratio (c) Debt Ratio (d) Quick Ratio

(xvi) If we add the average number of days to turn the inventory over and the average age of receivables (in number of days), we arrive at:

- (a) The company's fiscal period
- (b) The sales volume of the business
- (c) The company's operating cycle**
- (d) Nothing meaningful

(xvii) Which of the following is least important in determining the fair market value of a share?

- (a) Earnings and dividends per share
- (b) Book value per share
- (c) The available supply of shares and the demand to purchase the shares.
- (d) The par value of share.**

(xviii) Financial statements prepared by a business firm are most likely to be:

- (a) Fully reliable (b) Tentative in nature
- (c) Relevant for all types of decisions** (d) Always misleading

(xix) One of the following is not an officer of a company:

- (a) Share registrar** (b) Controller (c) Secretary (d) Treasurer

(xx) A deficit appears on the balance sheet:

- (a) Among the assets
- (b) As a deduction from total paid-up capital**
- (c) Among the liabilities
- (d) None of these